

**REPORT OF THE AUDIT OF THE  
BUTLER COUNTY  
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period  
May 03, 2008 Through May 04, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**BUTLER COUNTY**  
**SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period**  
**May 03, 2008 Through May 04, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Butler County Sheriff for the period May 03, 2008 through May 04, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$2,920,093 for the districts for 2008 taxes, retaining commissions of \$120,527 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,794,583 to the districts for 2008 taxes. Taxes of \$418 are due to the districts from the Sheriff and refunds of \$543 are due to the Sheriff from the taxing districts.

**Report Comment:**

- The Sheriff's Office Lacks An Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2008 TAXES.....	3
NOTES TO FINANCIAL STATEMENT .....	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	9
COMMENT AND RECOMMENDATION .....	13





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable David Fields, Butler County Judge/Executive  
Honorable Joe Gaddie, Butler County Sheriff  
Members of the Butler County Fiscal Court

Independent Auditor's Report

We have audited the Butler County Sheriff's Settlement - 2008 Taxes for the period May 03, 2008 through May 04, 2009. This tax settlement is the responsibility of the Butler County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Butler County Sheriff's taxes charged, credited, and paid for the period May 03, 2008 through May 04, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable David Fields, Butler County Judge/Executive  
Honorable Joe Gaddie, Butler County Sheriff  
Members of the Butler County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks An Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

March 18, 2010



BUTLER COUNTY  
JOE GADDIE, SHERIFF  
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 03, 2008 Through May 04, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 272,735	\$ 725,757	\$ 1,195,594	\$ 386,903
Tangible Personal Property	15,993	55,803	70,100	109,091
Fire Protection	2,903			
Franchise Taxes	17,753	57,595	77,809	
Additional Billings	119	333	516	161
Oil and Gas Property Taxes	1,547	4,012	6,780	2,194
Limestone, Sand and Mineral Reserves	123	320	540	175
Penalties	2,946	7,801	12,818	4,021
Adjusted to Sheriff's Receipt	981	(1,162)	(1,889)	(643)
Gross Chargeable to Sheriff	315,100	850,459	1,362,268	501,902
<u>Credits</u>				
Exonerations	1,956	5,413	8,553	2,816
Discounts	4,069	10,925	17,574	6,839
Delinquents:				
Real Estate	4,865	12,790	21,303	6,894
Tangible Personal Property	270	941	1,182	1,551
Franchise Taxes	194	653	848	
Total Credits	11,354	30,722	49,460	18,100
Taxes Collected	303,746	819,737	1,312,808	483,802
Less: Commissions *	13,197	33,969	52,512	20,849
Taxes Due	290,549	785,768	1,260,296	462,953
Taxes Paid	289,749	784,561	1,258,192	462,081
Refunds (Current and Prior Year)	565	1,190	2,481	872
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ 235	\$ 17	\$ (377)	\$ 0

\* And \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

BUTLER COUNTY  
 JOE GADDIE, SHERIFF  
 SHERIFF'S SETTLEMENT - 2008 TAXES  
 For The Period May 03, 2008 Through May 04, 2009  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,249,475
4% on	\$	1,660,618

\*\* Special Taxing Districts:

Library District	\$	29
Health District		(16)
Extension District		(41)
Ambulance District		(62)
Big Muddy Watershed District		(6)
Big Reedy Watershed District		(26)
City of Rochester		154
City of Woodbury		(15)
		<hr/>

Due Districts or

(Refunds Due Sheriff)

\$	17
	<hr/> <hr/>

BUTLER COUNTY  
NOTES TO FINANCIAL STATEMENT

May 04, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Butler County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BUTLER COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 04, 2009  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Butler County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 04, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 01, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 15, 2008 through May 04, 2009.

B. Oil and Gas Taxes

The oil and gas property tax assessments were levied as of January 01, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 18, 2008 through May 04, 2009.

Note 4. Interest Income

The Butler County Sheriff earned \$805 as interest income on 2008 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Butler County Sheriff collected \$25,653 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Butler County Sheriff collected \$1,330 of advertising costs and \$2,835 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff escrowed 2006 taxes in August 2007. The escrow account has a balance of \$362 as of May 04, 2009. KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned, and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Fields, Butler County Judge/Executive  
Honorable Joe Gaddie, Butler County Sheriff  
Members of the Butler County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Butler County Sheriff's Settlement - 2008 Taxes for the period May 03, 2008 through May 04, 2009, and have issued our report thereon dated March 18, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Butler County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Butler County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Butler County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks An Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Butler County Sheriff's Settlement - 2008 Taxes for the period May 03, 2008 through May 04, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Butler County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

March 18, 2010



COMMENT AND RECOMMENDATION



BUTLER COUNTY  
JOE GADDIE, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period May 03, 2008 Through May 04, 2009

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks An Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties over receipts, disbursements, and reconciliations. The bookkeeper and the office deputy collect payments from customers, prepare deposits, prepare daily collection printouts, and post to the receipts ledger. In addition, the bookkeeper prepares monthly tax reports, reconciles monthly tax reports to receipts and disbursements, writes and signs checks, and posts to the disbursements ledger. The office deputy prepares the monthly bank reconciliations. The Sheriff or another individual did not document oversight of any of these activities.

Segregation of duties over receipts, disbursements, and reconciliations or the implementation of documented compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets. If it is not possible to segregate all functions of the accounting process, the implementation of documented compensating controls will help limit the severity of possible asset misappropriation and/or inaccurate financial reporting.

We recommend the Sheriff implement these compensating controls and require the controls be documented as evidence of their existence to offset the lack of segregation of duties over receipts, disbursements, and reconciliations:

- The Sheriff or his designee should periodically prepare the daily bank deposit and compare to the daily checkout sheet and to the receipts ledger. Any difference should be reconciled. This review could be documented by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should periodically perform surprise cash counts and recount cash. This count could be documented by initialing the deposit ticket.
- The Sheriff or his designee should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This review could be documented by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff or designee should review the reconciliation of monthly tax reports to receipts and disbursements ledgers. Any differences should be reconciled. This review could be documented by initialing the reconciliation and the ledgers.

*Sheriff's Response: None.*

